

**KELLOGGSVILLE  
PUBLIC SCHOOLS  
Kent County, Michigan**

Comprehensive Annual Financial Report

For the year ended June 30, 2007

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Table of Contents**

Year ended June 30, 2007

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Financial Section

<i>Independent Auditor's Report</i> .....	1
<i>Management's Discussion and Analysis</i> .....	3
<i>Basic Financial Statements</i> .....	11
District-wide Financial Statements:	
Statement of Net Assets.....	12
Statement of Activities .....	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet .....	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	15
Statement of Revenues, Expenditures and Changes in Fund Balances .....	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	17
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – General Fund .....	18
Proprietary Fund:	
Statement of Net Assets .....	19
Statement of Revenues, Expenses and Changes in Fund Net Assets .....	20
Statement of Cash Flows.....	21
Fiduciary Fund:	
Statement of Fiduciary Assets and Liabilities .....	22
Notes to Basic Financial Statements .....	23

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Table of Contents (Continued)**

Year ended June 30, 2007

---

*Supplemental Information*

Combining and Individual Fund Statements and Schedules:

General Fund .....	39
Comparative Balance Sheet .....	40
Comparative Schedule of Revenues .....	41
Comparative Schedule of Expenditures .....	42
Nonmajor Governmental Funds .....	47
Combining Balance Sheet .....	48
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances .....	50
Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Food Service Special Revenue Fund .....	52
Athletics Special Revenue Fund .....	53
Child Care Special Revenue Fund .....	54
Special Revenue Funds .....	55
Food Service Special Revenue Fund:	
Comparative Balance Sheet .....	56
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances .....	57
Athletics Special Revenue Fund:	
Comparative Balance Sheet .....	58
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances .....	59
Child Care Special Revenue Fund:	
Comparative Balance Sheet .....	60
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances .....	61
Debt Service Funds .....	63
Combining Balance Sheet .....	64
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances .....	66
Capital Projects Fund .....	68
2007 Construction Capital Projects Fund	
Comparative Balance Sheet .....	69
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances .....	70
Agency Fund .....	71
Student Activities Agency Fund:	
Statement of Changes in Assets and Liabilities .....	72

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Table of Contents (Continued)**

Year ended June 30, 2007

---

*Supplemental Information (Continued)*

Other Information:

Summary of 2006 Taxes Levied and Collected.....	74
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**Federal Financial Assistance Programs Supplemental Information ..... Issued Under Separate Cover**

## **FINANCIAL SECTION**

Hungerford, Aldrin,  
Nichols & Carter, P.C.  
CPAs AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT**

October 17, 2007

The Board of Education  
Kelloggsville Public Schools

We have audited the accompanying financial statements of the governmental activities, the major funds and the aggregate remaining fund information of Kelloggsville Public Schools (the "District") as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major funds and the aggregate remaining fund information of Kelloggsville Public Schools as of June 30, 2007, and the respective changes in financial position and budgetary comparison for the General Fund and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2007 on our consideration of Kelloggsville Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Kelloggsville Public Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hungerford, Aldrin, Nichols & Carter, P.C.*

Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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As management of the Kelloggsville Public Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

**Overview of the Financial Statements**

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
  - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

**District-wide Statements**

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets, and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base and the condition of school buildings and other facilities.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

**Condensed District-Wide Financial Information**

The Statement of Net Assets provides financial information on the District as a whole.

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current assets	\$ 8,821,445	\$ 6,992,875
Net capital assets	<u>27,433,312</u>	<u>27,751,243</u>
<b>Total Assets</b>	<u><b>36,254,757</b></u>	<u><b>34,744,118</b></u>
<b>Liabilities</b>		
Current liabilities	3,572,069	3,304,368
Long-term liabilities	<u>16,395,284</u>	<u>15,907,093</u>
<b>Total Liabilities</b>	<u><b>19,967,353</b></u>	<u><b>19,211,461</b></u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	9,979,221	10,962,243
Restricted	1,956,500	79,488
Unrestricted	<u>4,351,683</u>	<u>4,490,926</u>
<b>Total Net Assets</b>	<u><b>\$ 16,287,404</b></u>	<u><b>\$ 15,532,657</b></u>

The results of the fiscal year's operations for the District as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2007**

The Statement of Activities presents changes in net assets from operating results:

	<u>2007</u>	<u>2006</u>
<b>Program Revenues</b>		
Charges for services	\$ 388,467	\$ 385,872
Operating grants	4,501,135	4,076,339
<b>General Revenues</b>		
Property taxes	6,092,599	5,960,880
State school aid, unrestricted	11,569,277	10,905,859
Interest earnings	313,290	215,741
Other	141,033	74,079
<b>Total Revenues</b>	<u>23,005,801</u>	<u>21,618,770</u>
<b>Expenses</b>		
Instruction	12,751,556	11,946,669
Supporting services	7,004,000	6,682,726
Community services	195,389	214,849
Food service	922,444	894,310
Athletics	538,686	392,148
Interest on long-term debt	834,264	731,359
Depreciation - unallocated	4,265	4,519
<b>Total Expenses</b>	<u>22,251,054</u>	<u>20,866,579</u>
Increase in net assets	754,747	752,191
<b>Net Assets - Beginning of Year</b>	<u>15,532,657</u>	<u>14,780,466</u>
<b>Net Assets - End of Year</b>	<u><u>\$ 16,287,404</u></u>	<u><u>\$ 15,532,657</u></u>

**Financial Analysis of the District as a Whole**

The District's financial position is the product of many factors. Growth during the year in grants, categorical funding and student count were significant contributors to revenue increases. A mid-year pro-ration in state aid was also a factor in reducing anticipated state aid revenues.

Property taxes and state aid accounted for most of the District's revenue, contributing about 77 cents of every dollar raised. Another 20 percent came from state and federal aid for specific programs and the remainder from fees charged for services and miscellaneous sources.

The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (65 percent).

- Total revenues surpassed expenses, increasing net assets \$754,747 from the prior year. Appropriate budget controls in place along with increased state aid and property taxes contributed to this.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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- The cost of all governmental activities this year was \$22,251,054.
- Some of the costs were financed by the users of the District's programs totaling \$388,467.
- The federal and state governments subsidized certain programs with grants and contributions of \$4,501,135.
- The balance of the District's costs were financed by District taxpayers, state school aid and interest earnings, totaling \$18,116,199.
- This portion of governmental activities was financed with \$6,092,599 of property taxes, \$11,569,277 of unrestricted state aid based on the statewide education aid formula and investment earnings of \$313,290.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed, short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

**Financial Analysis of the District's Funds**

The District uses funds to record and analyze financial information. Kelloggsville Public School's funds are described as follows:

**Major Funds**

General Fund

The General Fund is our primary operating fund. The General Fund had total revenues of \$19,853,017, total expenditures of \$19,505,252, and total other financing uses of \$462,993. It ended the fiscal year with a fund balance of \$4,820,807, down from \$4,936,035 at June 30, 2006.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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2007 Construction Fund

The District operates this fund to account for bond proceeds used to finance building construction and improvement projects. Total revenues were \$48,883, with total expenditures of \$266,166 and total bond proceeds of \$2,075,000. The ending fund balance totaled \$1,857,717.

**Nonmajor Funds**

Special Revenue Funds

The District operates three Special Revenue Funds, for the food service, athletic and child care programs. Total revenue of all special revenue funds was \$1,042,711, with total expenditures of \$1,463,284, and total other financing sources of \$423,499. Of the ending fund balances, \$19,445 is attributable to the Food Service Fund, \$5,201 is attributable to the Athletic Fund and \$1,629 is attributable to the Child Care Fund.

Debt Service Funds

The District operates three Debt Service Funds. Total revenues were \$2,134,574 and total expenditures were \$2,074,160. Transfers from other District funds totaled \$27,049. The ending fund balances totaled \$235,804.

Fiduciary Funds

The Student Activity Fund is operated as an Agency Fund of the District. The assets of this fund are being held for the benefit of the District's students. Balances on hand at June 30, 2007 totaled \$303,205.

**General Fund Budgetary Highlights**

Over the course of the year, the District revised the annual operating budget three times to comply with Michigan Department of Education guidelines. These budget amendments fall into two categories:

- Changes made in January to account for the final student enrollment that determines how much foundation grant state school aid will be received during the fiscal year.
- Changes in May and final changes in June for increases in appropriations to prevent budget overruns.
- On the District's final amended budget anticipated expenditures exceeded revenues by \$152,235. Increased retirement and health care costs surpassed the increase in state revenue. Some new programming was implemented to enhance student achievement.
- Actual revenues were \$27,292 higher than expected, due largely to increased investment interest and federal revenues.
- Budgeted expenditures exceeded final expenditures by \$5,717 due to the slight increase in revenue as well as a decrease in expected payables.

**Capital Asset and Debt Administration**

Capital Assets

By the end of 2007, the District had a \$36,606,807 investment in a broad range of capital assets, including school buildings, athletic facilities, computer equipment and software, and administrative offices. (More detailed information about capital assets can be found in the notes to basic financial statements.)

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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Capital asset purchases totaled \$277,737 and disposals totaled 114,712 for the fiscal year with accumulated depreciation increasing \$595,668. The net book value of capital assets at June 30, 2007 is detailed as follows:

Land	\$ 11,733,002
Construction in progress	220,849
Land improvements	479,348
Buildings and additions	14,541,784
Furniture and equipment	204,794
Vehicles	<u>253,535</u>
<b>Net Capital Assets</b>	<u><u>\$ 27,433,312</u></u>

Long-Term Debt

At year end, the District had \$18,021,960 in general obligation bonds and other long-term debt outstanding – a net increase of \$728,093 from last year.

The District's bond rating for General Obligation, Unlimited Tax debt is "Aaa". The District's other obligations include an installment purchase agreement, and staff related retirement incentives and compensated absences. There is more detailed information about long-term liabilities in the Notes to Basic Financial Statements.

**Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The State of Michigan did not implement a pro-ration for fiscal year 2006-07 and the funding per pupil increased to \$7,085. However, even with increased funding, the constraints of retirement and health care costs exceed the increase in funding levels. With the continued economic situation in the State of Michigan, it is difficult to determine where funding will be for the 2007-08 school year.
- The continual increase in retirement and health care rates is being monitored closely for appropriate future budget planning. The preparation for large percentage increases in the 2007-08 school year is being implemented.

**Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Kelloggsville Public Schools, 242 – 52nd Street, Kentwood, MI, 49508.

## **BASIC FINANCIAL STATEMENTS**

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Statement of Net Assets**  
**June 30, 2007**

	Governmental Activities
<b>Assets</b>	
<b>Current Assets</b>	
Cash equivalents, deposits and investments (Note B)	\$ 6,255,111
Receivables:	
Taxes (Note C)	161,247
Accounts	4,270
Due from other governmental units (Note C)	2,355,970
Accrued interest receivable	9,397
Inventory (Note A)	17,253
Prepaid expenses	18,197
<b>Total Current Assets</b>	<u>8,821,445</u>
<b>Noncurrent Assets</b>	
Capital assets (Note E)	36,606,807
Less accumulated depreciation	(9,173,495)
<b>Total Noncurrent Assets</b>	<u>27,433,312</u>
<b>Total Assets</b>	<u>36,254,757</u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	194,994
Due to other governmental units	433,180
Accrued interest payable	137,021
Salaries payable	1,125,805
Compensated absences	21,614
Current portion of long term obligations	1,659,455
<b>Total Current Liabilities</b>	<u>3,572,069</u>
<b>Noncurrent Liabilities (Notes A, F)</b>	
General obligation bonds payable	17,190,000
Durant non-plaintiff bonds payable	135,160
Note payable	53,932
Installment purchase agreement payable	42,220
Severance pay	118,383
Accumulated sick leave	482,265
Unamortized bond premium	32,779
Current portion of long term obligations	(1,659,455)
<b>Total Noncurrent Liabilities</b>	<u>16,395,284</u>
<b>Total Liabilities</b>	<u>19,967,353</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	9,979,221
Restricted for:	
Debt service	98,783
Capital outlay	1,857,717
Unrestricted	4,351,683
<b>Total Net Assets</b>	<u><u>\$ 16,287,404</u></u>

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Statement of Activities**  
**For the year ended June 30, 2007**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
<b>Governmental Activities</b>				
Instruction	\$ 12,751,556	\$ 30,051	\$ 3,524,469	\$ (9,197,036)
Supporting services	7,004,000	12,201	284,817	(6,706,982)
Community services	195,839	90,928	22,133	(82,778)
Food service	922,444	216,728	669,716	(36,000)
Athletics	538,686	38,559	-	(500,127)
Interest on long-term debt	834,264	-	-	(834,264)
Depreciation - unallocated	4,265	-	-	(4,265)
<b>Total Governmental Activities</b>	<u>\$ 22,251,054</u>	<u>\$ 388,467</u>	<u>\$ 4,501,135</u>	<u>(17,361,452)</u>
<b>General Revenues</b>				
Taxes:				
Property taxes, levied for general operations				4,026,814
Property taxes, levied for debt service				2,065,785
State school aid, unrestricted				11,569,277
Interest and investment earnings				313,290
Other				141,033
<b>Total General Revenues</b>				<u>18,116,199</u>
<b>Change in Net Assets</b>				754,747
<b>Net Assets - Beginning of Year</b>				<u>15,532,657</u>
<b>Net Assets - End of Year</b>				<u>\$ 16,287,404</u>

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**

	General	2007 Construction	Nonmajor	Total
<b>Assets</b>				
Cash equivalents, deposits and investments (Note B)	\$ 4,096,785	\$ 1,857,217	\$ 257,107	\$ 6,211,109
Receivables:				
Taxes (Note C)	121,414	-	39,833	161,247
Accounts	3,324	-	946	4,270
Due from other funds (Note D)	115,000	500	-	115,500
Due from other governmental units (Note C)	2,349,664	-	6,306	2,355,970
Accrued interest receivable	9,397	-	-	9,397
Inventory (Note A)	-	-	17,253	17,253
Prepaid expenditures	18,197	-	-	18,197
<b>Total Assets</b>	<b>\$ 6,713,781</b>	<b>\$ 1,857,717</b>	<b>\$ 321,445</b>	<b>\$ 8,892,943</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 193,565	\$ -	\$ 1,429	\$ 194,994
Due to other funds (Note D)	-		15,500	15,500
Due to other governmental units	432,653	-	527	433,180
Salaries payable	1,123,728	-	2,077	1,125,805
Deferred revenue	121,414	-	39,833	161,247
Compensated absences	21,614	-	-	21,614
<b>Total Liabilities</b>	<b>1,892,974</b>	<b>-</b>	<b>59,366</b>	<b>1,952,340</b>
<b>Fund Balances</b>				
Reserved for:				
Debt service	-	-	235,804	235,804
Capital outlay	-	1,857,717	-	1,857,717
Encumbrances	83,254	-	-	83,254
Unreserved:				
Undesignated, reported in:				
General fund	4,737,553	-	-	4,737,553
Special revenue funds	-	-	26,275	26,275
<b>Total Fund Balances</b>	<b>4,820,807</b>	<b>1,857,717</b>	<b>262,079</b>	<b>6,940,603</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,713,781</b>	<b>\$ 1,857,717</b>	<b>\$ 321,445</b>	<b>\$ 8,892,943</b>

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**June 30, 2007**

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<b>Total governmental fund balances</b>		\$ 6,940,603
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$36,606,807 and accumulated depreciation is \$9,173,495.		
		27,433,312
Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.		
		(32,779)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General obligation bonds	\$(17,190,000)	
Durant non-plaintiff bonds	(135,160)	
Notes	(53,932)	
Installment purchase agreements	(42,220)	
Severance pay	(118,383)	
Accumulated sick leave	(482,265)	
	<u>(18,021,960)</u>	
Accrued interest is not included as a liability in governmental funds.		
		(137,021)
Deduct Internal Service Fund negative fund balance.		
		(55,998)
Deferred revenue recognized as revenue in the full accrual statements:		
Property taxes		<u>161,247</u>
<b>Total net assets - governmental activities</b>		<u><u>\$ 16,287,404</u></u>

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2007**

	General	2007 Construction	Nonmajor	Total
<b>Revenues</b>				
Local sources	\$ 4,474,454	\$ 48,883	\$ 2,485,436	\$ 7,008,773
State sources	12,821,015	-	64,948	12,885,963
Federal sources	758,352	-	626,901	1,385,253
Interdistrict sources	1,799,196	-	-	1,799,196
<b>Total Revenues</b>	<b>19,853,017</b>	<b>48,883</b>	<b>3,177,285</b>	<b>23,079,185</b>
<b>Expenditures</b>				
Current:				
Instruction	12,417,111	-	-	12,417,111
Supporting services	6,911,774	-	-	6,911,774
Community services	49,074	-	124,818	173,892
Food service	-	-	882,860	882,860
Athletics	-	-	455,606	455,606
Capital outlay	-	220,849	-	220,849
Debt service:				
Principal repayment	109,929	-	1,250,000	1,359,929
Interest and fiscal charges	6,364	-	824,160	830,524
Bond issuance costs	-	30,606	-	30,606
Underwriter's discount	-	14,711	-	14,711
Interdistrict	11,000	-	-	11,000
<b>Total Expenditures</b>	<b>19,505,252</b>	<b>266,166</b>	<b>3,537,444</b>	<b>23,308,862</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>347,765</b>	<b>(217,283)</b>	<b>(360,159)</b>	<b>(229,677)</b>
<b>Other Financing Sources (Uses)</b>				
Bonds issued		2,075,000		2,075,000
Transfers in	-	-	450,548	450,548
Other transactions	(12,445)	-	-	(12,445)
Transfers out	(450,548)	-	-	(450,548)
<b>Total Other Financing Sources (Uses)</b>	<b>(462,993)</b>	<b>2,075,000</b>	<b>450,548</b>	<b>2,062,555</b>
<b>Net Change in Fund Balances</b>	<b>(115,228)</b>	<b>1,857,717</b>	<b>90,389</b>	<b>1,832,878</b>
<b>Fund Balances, Beginning of Year</b>	<b>4,936,035</b>	<b>-</b>	<b>171,690</b>	<b>5,107,725</b>
<b>Fund Balances, End of Year</b>	<b>\$ 4,820,807</b>	<b>\$ 1,857,717</b>	<b>\$ 262,079</b>	<b>\$6,940,603</b>

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the year ended June 30, 2007**

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**Net change in fund balances - total governmental funds** **\$ 1,832,878**

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	\$ 277,737	
Depreciation expense	<u>(595,668)</u>	(317,931)

As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. (103,305)

Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets (2,075,000)

Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue. 49,980

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not effect the Statement of Activities.

Repayment of bonds	1,250,000	
Repayment of notes	69,235	
Repayment of installment purchase agreements	<u>40,694</u>	1,359,929

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is paid. (3,739)

Add Internal Service Fund net income for the fiscal year. 24,957

In the Statement of Net Assets, early retirement incentive, accumulated vacation pay and compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned (\$104,262) exceeded the amounts used/paid (\$91,240). (13,022)

**Total changes in net assets - governmental activities** **\$ 754,747**

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2007**

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 4,412,016	\$ 4,465,295	\$ 4,474,454	\$ 9,159
State sources	12,389,568	12,822,728	12,821,015	(1,713)
Federal sources	760,457	836,860	758,352	(78,508)
Interdistrict sources	1,626,766	1,700,842	1,799,196	98,354
<b>Total Revenues</b>	<u>19,188,807</u>	<u>19,825,725</u>	<u>19,853,017</u>	<u>27,292</u>
<b>Expenditures</b>				
Current:				
Instruction	11,859,942	12,469,925	12,417,111	52,814
Supporting services	5,787,650	6,859,808	6,911,774	(51,966)
Community services	63,519	53,942	49,074	4,868
Debt service	-	116,294	116,293	1
Interdistrict	1,075,268	11,000	11,000	-
<b>Total Expenditures</b>	<u>18,786,379</u>	<u>19,510,969</u>	<u>19,505,252</u>	<u>5,717</u>
<b>Excess Of Revenues Over Expenditures</b>	<u>402,428</u>	<u>314,756</u>	<u>347,765</u>	<u>33,009</u>
<b>Other Financing Sources (Uses)</b>				
Transfers out	(402,428)	(454,549)	(450,548)	4,001
Other transactions	-	(12,442)	(12,445)	(3)
<b>Total Other Financing Sources (Uses)</b>	<u>(402,428)</u>	<u>(466,991)</u>	<u>(462,993)</u>	<u>3,998</u>
<b>Net Change in Fund Balances</b>	-	(152,235)	(115,228)	37,007
<b>Fund Balances, Beginning of Year</b>	<u>4,936,035</u>	<u>4,936,035</u>	<u>4,936,035</u>	<u>-</u>
<b>Fund Balances, End of Year</b>	<u>\$ 4,936,035</u>	<u>\$ 4,783,800</u>	<u>\$ 4,820,807</u>	<u>\$ 37,007</u>

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Statement of Net Assets**  
**Proprietary Fund**  
**June 30, 2007**

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	Health Internal Service
<b>Assets</b>	
<b>Current Assets</b>	
Cash equivalents, deposits and investments (Note B)	<u>\$        44,002</u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Due to other funds (Note D)	<u>100,000</u>
<b>Net Assets</b>	
Unrestricted	<u>(55,998)</u>
<b>Total Net Assets</b>	<u><u>\$    (55,998)</u></u>

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Fund**  
**For the year ended June 30, 2007**

	Health Internal Service
<b>Operating Revenues</b>	
Insurance premiums	\$ 670,153
<b>Operating Expenses</b>	
Employee insurance	454,013
Other purchased services	198,211
<b>Total Operating Expenses</b>	652,224
<b>Operating Income</b>	17,929
<b>Nonoperating Revenues</b>	
Interest earnings	7,028
<b>Change in Net Assets</b>	24,957
<b>Net Assets, Beginning of Year</b>	(80,955)
<b>Net Assets, End of Year</b>	\$ (55,998)

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the year ended June 30, 2007**

	Health Internal Service
<b>Cash Flows From Operating Activities</b>	
Receipts from customers	\$ 670,153
Payments to suppliers	<u>(652,224)</u>
<b>Net Cash Provided By Operating Activities</b>	<u>17,929</u>
<b>Cash Flows From Investing Activities</b>	
Interest received	<u>7,028</u>
<b>Net Increase In Cash and Cash Equivalents</b>	24,957
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>19,045</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 44,002</u></u>
<b>Reconciliation of Operating Income To Net Cash Provided By Operating Activities</b>	
Operating income	<u><u>\$ 17,929</u></u>

See accompanying notes to basic financial statements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Fiduciary Fund**  
**Statement of Fiduciary Assets and Liabilities**  
**June 30, 2007**

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**Assets**

Cash equivalents, deposits and investments (Note B)	<u>\$ 303,205</u>
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**Liabilities**

Due to student groups	<u>\$ 303,205</u>
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See accompanying notes to basic financial statements.

## **NOTES TO BASIC FINANCIAL STATEMENTS**

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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## **Note A – Summary of Significant Accounting Policies**

Kelloggsville Public Schools was organized under the School Code of the State of Michigan and services a population of approximately 2,177 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Kelloggsville Public Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District’s accounting policies are described below.

### **1. Reporting Entity**

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

### **2. District-Wide and Fund Financial Statements**

**District-Wide Financial Statements** – The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund and the 2007 Construction Fund are the District's major funds. Non-major funds are aggregated and presented in a single column.

**Fund Financial Statements** – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **3. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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**Governmental Funds**

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

*General Fund*—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

*Special Revenue Funds*—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

*School Service Funds*—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service, Athletics and Child Care Funds.

*Debt Service Funds*—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

*Capital Projects Funds*—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code.

The District reports the following internal service fund:

The *Health Internal Service Fund* is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District or to other governments, primarily on a cost reimbursement basis. The Health Fund provides insurance benefits provided by payments from the other District Funds.

**Fiduciary Funds**

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net assets and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

#### **4. Budgets and Budgetary Accounting**

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Kelloggsville Public Schools has also adopted budgets for its Special Revenue Funds. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Kelloggsville Public Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

#### **5. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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**6. Investments**

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

**7. Inventory**

Inventories are valued at cost (first-in, first-out). Inventories of the General Fund consist of teaching and custodial supplies. Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

**8. Capital Assets**

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and improvements, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and improvements	40-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

**9. Long-Term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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**10. Severance Pay/Accumulated Sick Leave**

Severance pay and accumulated sick leave at June 30, 2007 has been computed and recorded in the basic financial statements of the District. Eligible District employees who retire are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2007, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for severance pay and accumulated sick leave amounted to \$118,383 and \$482,265, respectively.

**11. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**12. Interfund Activity**

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

**13. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Note B – Cash Equivalents and Deposits**

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

**Cash Equivalents and Deposits**

Depositories actively used by the District during the year are detailed as follows:

1. Byron Bank

Balances at June 30, 2007 related to cash equivalents and deposits are detailed in the Basic Financial Statements as follows:

Governmental Funds	\$ 6,211,109
Internal Service Fund	44,002
Fiduciary Fund	303,205
	<hr/>
	\$ 6,558,316
	<hr/>

Cash equivalents consist of bank interest earning super NOW accounts. Deposits consist of certificates of deposit.

June 30, 2007 balances are detailed as follows:

Cash equivalents	\$ 3,119,397
Deposits	3,438,619
	<hr/>
	\$ 6,558,316
	<hr/>

*Custodial credit risk*

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$6,558,316 and the bank balance was \$6,785,831. Of the bank balance, \$100,000 was covered by federal depository insurance and \$6,685,831 was uninsured.

**Note C – State School Aid/Property Taxes**

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2006 ad valorem State Education Taxes generated within the Kelloggsville Public School District, and paid to the State of Michigan, totaled \$2,251,375.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2006 and September, 2006. The 2006-07 "Foundation Allowance" for Kelloggsville Public Schools was \$7,085 for 2,163 "Full Time Equivalent" students, generating \$12,547,008 in state aid payments to the District, of which \$2,123,277 was paid to the District in July and August, 2007 and included in "Due From Other Governmental Units" of the General and Food Service Special Revenue Funds of the District.

Property taxes for the District are levied July 1 and December 1 under a split-levy system by the Cities of Kentwood and Wyoming. The taxes are then collected by each governmental unit and remitted to the District. The County of Kent, through its Delinquent Tax Revolving Fund, advances all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

<b>Tax Year</b>	<b>General</b>	<b>Debt Service</b>	<b>Total</b>
2006	\$ 24,505	\$ 6,613	\$ 31,118
2005	55,001	18,611	73,612
2004	41,908	14,609	56,517
	<u>\$ 121,414</u>	<u>\$ 39,833</u>	<u>\$ 161,247</u>

Taxes receivable are offset by deferred revenue in the General and Debt Service Funds of the District. Taxes uncollected after three years from the date of levy are written off the books of the District.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

Kelloggsville Public Schools electors previously approved an eight year operating millage extension in June, 1999 for the 18 mill non-homestead property tax.

The District levied 5.50 mills for debt service purposes, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage", nor any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

**Note D – Interfund Transfers/Receivables**

Operating transfers between funds during the year ended June 30, 2007 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Major Fund</b>		
General Fund		
Special Revenue Funds:		
Athletics Fund	\$ —	\$ 414,999
Child Care Fund	—	8,500
Debt Service Funds:		
2007 Debt Service Fund	—	27,049
Total Major Fund	—	450,548
<b>Nonmajor Funds</b>		
Special Revenue Funds:		
Athletics Fund:		
General Fund	414,999	—
Child Care Fund:		
General Fund	8,500	—
Debt Service Funds:		
2007 Debt Service Fund:		
General Fund	27,049	—
<b>Total All Funds</b>	<u>\$ 450,548</u>	<u>\$ 450,548</u>

The General Fund transfer to the Athletic Fund was made to pay the General Fund's share of support for the athletic program for the fiscal year. The transfers to the Child Care and Debt Service Funds were made to pay for 2006-07 operational and debt service expenditures.

The \$100,000 due from the Health Care Internal Service Fund to the General Fund was made to advance operating monies to the new fund. There is no scheduled time table to repay this advance. The \$15,000 due from the Food Service Special Revenue Fund to the General Fund was for repayment of expenditures.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

**Note E – Capital Assets**

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Balances July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2007</u>
Capital assets not depreciated:				
Land	\$ 11,733,002	\$ —	\$ —	\$ 11,733,002
Construction in progress	—	220,849	—	220,849
Capital assets being depreciated:				
Land improvements	1,156,890	29,525	—	1,186,415
Buildings and additions	20,985,492	—	—	20,985,492
Furniture and equipment	1,632,522	27,363	—	1,659,885
Vehicles	935,876	—	114,712	821,164
	<u>\$ 36,443,782</u>	<u>\$ 277,737</u>	<u>\$ 114,712</u>	<u>\$ 36,606,807</u>
Less accumulated depreciation for:				
Land improvements	\$ 648,580	\$ 58,487	\$ —	\$ 707,067
Buildings and additions	6,063,869	379,839	—	6,443,708
Furniture and equipment	1,335,294	119,797	—	1,455,091
Vehicles	644,796	37,545	114,712	567,629
	<u>8,692,539</u>	<u>\$ 595,668</u>	<u>\$ 114,712</u>	<u>9,173,495</u>
<b>Net Capital Assets</b>	<u><u>\$ 27,751,243</u></u>			<u><u>\$ 27,433,312</u></u>

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 296,517
Supporting services	151,868
Community services	21,947
Food service	37,991
Athletics	83,080
Unallocated	4,265
	<u>\$ 595,668</u>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

**Note F – Long-term Debt**

Amounts available and to be provided for outstanding long-term debt at June 30, 2007 are summarized as follows:

	<b>General Obligation Bonds</b>	<b>Durant Non-plaintiff Bonds</b>	<b>Notes Payable/ Installment Purchase Agreements</b>	<b>Severance Pay/ Accumulated Sick Leave</b>	<b>Total</b>
<b>Amount Available For Retirement Of Long-Term Debt</b>					
Debt Service Funds	\$ 235,804	\$ —	\$ —	\$ —	\$ 235,804
<b>Amounts To Be Provided For Retirement Of Long-Term Debt</b>					
State of Michigan	—	135,160	—	—	135,160
General Fund	—	—	96,152	600,648	696,800
Debt Service Funds	16,954,196	—	—	—	16,954,196
<b>Total Amounts Available and To Be Provided</b>	<b>\$17,190,000</b>	<b>\$ 135,160</b>	<b>\$ 96,152</b>	<b>\$ 600,648</b>	<b>\$18,021,960</b>

Changes in long-term debt for the year ended June 30, 2007 are summarized as follows:

	<b>Debt Outstanding July 1, 2006</b>	<b>Debt Added</b>	<b>Debt Retired</b>	<b>Debt Outstanding June 30, 2007</b>
General obligation bonds:				
July 1, 1998	\$ 8,245,000	\$ —	\$ 1,090,000	\$ 7,155,000
August 10, 2005	8,120,000	—	160,000	7,960,000
January 1, 2007	—	2,075,000	—	2,075,000
Durant non-plaintiff bonds:				
November 13, 1998	135,160	—	—	135,160
Note payable	123,167	—	69,235	53,932
Installment purchase agreement	82,914	—	40,694	42,220
Severance pay	107,377	23,763	12,757	118,383
Accumulated sick leave	480,249	80,499	78,483	482,265
	<b>\$ 17,293,867</b>	<b>\$ 2,179,262</b>	<b>\$ 1,451,169</b>	<b>\$ 18,021,960</b>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

Long-term bonds and at June 30, 2007 are comprised of the following:

	<b>Final Maturity Dates</b>	<b>Interest Rates</b>	<b>Outstanding Balance</b>	<b>Amount Due Within One Year</b>
<b>General Obligation Bonds</b>				
\$22,280M Building and Site July 1, 1998: Annual maturities of \$580M to \$1,145M	May 1, 2018	4.65 – 5.15	\$ 7,155,000	\$ 1,145,000
\$8,280M Refunding August 10, 2005: Annual maturities of \$205M to \$1,370M	May 1, 2015	3.50 – 5.00	\$ 7,960,000	205,000
\$2,075M Building and Site January 1, 2007: Annual maturities of \$100M to \$185M	May 1, 2022	3.875 – 4.00	\$ 2,075,000	100,000
<b>Durant Non-plaintiff Bonds</b>				
\$229M School Improvement November 13, 1998: Annual maturities of \$13M to \$98M	May 15, 2013	4.761353	135,160	—
<b>Note Payable</b>				
\$140M Land Purchase March 15, 2006: Annual maturity of \$53,932	May 15, 2008	4.290	53,932	53,932
<b>Installment Purchase Agreement</b>				
\$122,134 Bus Contract July 11, 2005: Annual maturity of \$42,220	July 11, 2008	3.80	42,220	42,220
			<u>\$ 17,421,312</u>	<u>\$ 1,546,152</u>

The annual requirements to pay principal and interest on long-term bonds outstanding are as follows:

<b>Year Ended June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2008	\$ 1,546,152	\$ 823,952	\$ 2,370,104
2009	1,597,739	754,079	2,351,818
2010	1,728,451	717,755	2,446,206
2011	1,748,981	610,523	2,359,504
2012	1,834,646	525,323	2,359,969
2013	1,925,343	434,976	2,360,319
2014	2,000,000	340,151	2,340,151
2015	2,100,000	241,312	2,341,312
2016	730,000	137,532	867,532
2017	760,000	101,869	861,869
2018	760,000	64,643	824,643
2019	160,000	27,440	187,440
2020	170,000	21,200	191,200
2021	175,000	14,400	189,400
2022	185,000	7,400	192,400
	<u>\$ 17,421,312</u>	<u>\$ 4,822,555</u>	<u>\$ 22,243,867</u>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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On August 10, 2005, the District issued \$8,280,000 in general obligation bonds to advance refund \$9,025,000 of outstanding 1998 general obligation bonds. Under the terms of the agreement these securities, together with the interest earned to maturity, will be sufficient to pay principal and interest as it becomes due. This procedure relieves the District from being primarily liable for the debt and the District is virtually assured of not being required to make further payments with respect to the debt. These funds are not commingled with other funds and cannot be redeemed prior to maturity. Any excess funds will be returned to the District upon final payment of principal and interest (Scheduled to be May 1, 2008). This defeasance procedure allows the District to remove the related assets and liabilities from its financial statements, which it has done. The assets, now held by the escrow agent to be used for the remaining principal and interest due of \$9,477,307 on the defeased debt at June 30, 2007 are detailed in the following schedule:

	<u>Cost</u>	<u>Market Value</u>	<u>Par Value</u>
U.S. Government Securities	\$9,158,435	\$9,158,435	\$9,158,435

#### **Note G – Retirement Plan**

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPERS for the year ended June 30, 2007 was \$11,215,320. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPERS plan. The contribution rate was 16.34% for the fiscal year ending September 30, 2006 and 17.74% for the fiscal year beginning October 1, 2006. The District's contributions to the plan for the fiscal years ended June 30, 2007, 2006 and 2005 were \$1,951,164, \$1,743,287 and \$1,498,846, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2005 (the latest reporting date available expressed as \$ in millions) for the MPERS as a whole, determined through an actuarial valuation performed as of that date, was \$48,206. The MPERS' net assets available for benefits on that date were \$38,211 leaving an unfunded pension benefit obligation of \$9,995. Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2006 Annual Report of the MPERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2007**

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The total actuarial accrued liability (expressed as \$ in millions) increased by \$2,462 from September 30, 2004 to September 30, 2005. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 3 years.

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above.

## **Note H – Risk Management and Benefits**

The District is a member of the SET-SEG Incorporated Insurance Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2007, there were no material pending claims against the District. The District paid \$55,535 in premiums to the Fund for the year ended June 30, 2007.

The District is also a member of the SET-SEG Incorporated Workers' Compensation Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2007, there were no material pending claims against the District. The District paid \$22,170 in premiums to the Fund for the year ended June 30, 2007.

Health, life and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## **Note I – Stewardship, Compliance and Accountability**

The following District funds had actual expenditures exceed final budgeted expenditures for the year ended June 30, 2007, as follows:

	<b>Budget</b>	<b>Actual</b>	<b>Unfavorable Variance</b>
Food Service	\$ 874,657	\$ 882,860	\$ 8,203
Child Care	124,314	124,818	504

## **SUPPLEMENTAL INFORMATION**

## **GENERAL FUND**

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Balance Sheet**  
**June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash equivalents, deposits and investments	\$ 4,096,785	\$ 4,100,949
Receivables:		
Taxes	121,414	200,123
Accounts	3,324	13,265
Accrued interest	9,397	-
Due from other funds	115,000	100,000
Due from other governmental units	2,349,664	2,409,724
Prepaid expenditures	18,197	-
<b>Total Assets</b>	<u><u>\$ 6,713,781</u></u>	<u><u>\$ 6,824,061</u></u>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ 193,565	\$ 148,141
Due to other governmental units	432,653	386,093
Salaries payable	1,123,728	1,132,055
Deferred revenue	121,414	200,123
Compensated absences	21,614	21,614
<b>Total Liabilities</b>	<u>1,892,974</u>	<u>1,888,026</u>
<b>Fund Balances</b>		
Reserved for encumbrances	83,254	8,900
Unreserved:		
Undesignated	4,737,553	4,927,135
<b>Total Fund Balances</b>	<u>4,820,807</u>	<u>4,936,035</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 6,713,781</u></u>	<u><u>\$ 6,824,061</u></u>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Revenues**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
Local sources:		
Property taxes:		
Current property taxes	\$ 4,048,266	\$ 3,910,954
Delinquent property taxes	32,951	38,826
Other property taxes	9,015	1,705
Interest on delinquent taxes	15,291	11,573
	<u>4,105,523</u>	<u>3,963,058</u>
Interest earnings:		
Interest on deposits and investments	214,686	180,812
Other local revenue:		
Community education fees	881	990
Summer school tuition	14,210	2,785
Driver education fees	13,165	14,915
Preschool tuition	2,676	5,350
Beverage consortium commissions	48,448	47,028
Rental of school facilities	473	1,521
Donations	5,000	-
Sale of school property	6,400	3,725
Insurance reimbursements	11,839	4,117
Crossing guard reimbursement	12,201	11,101
Refunds of prior years' expenditures	20,951	-
Miscellaneous	18,001	8,492
	<u>154,245</u>	<u>100,024</u>
Total local sources	4,474,454	4,243,894
State sources:		
State aid	12,821,015	11,883,397
School improvement	-	2,741
Total state sources	<u>12,821,015</u>	<u>11,886,138</u>
Federal sources:		
Title I	272,398	271,786
Title IIA	92,849	93,674
Title II D	2,796	5,070
Title III	68,950	72,511
Title V	2,580	4,437
I.D.E.A. program	306,939	289,671
Drug free schools	5,121	26,638
Medicaid - school based	2,719	4,310
SPSR grant	4,000	-
Total federal sources	<u>758,352</u>	<u>768,097</u>
Interdistrict sources:		
Special education - county	1,248,590	1,122,310
Special education - transportation	269,147	213,365
Special education - tuition	158,931	178,824
Special education - itinerants	15,670	37,586
Durant settlement reimbursements	15,957	31,497
Medicaid fee for service	90,901	132,455
Total interdistrict sources	<u>1,799,196</u>	<u>1,716,037</u>
<b>Total Revenues</b>	<u><u>\$ 19,853,017</u></u>	<u><u>\$ 18,614,166</u></u>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries	\$ 2,465,614	\$ 2,557,137
Employee benefits	1,247,895	1,193,038
Purchased services	51,149	5,974
Supplies	59,269	60,457
	<u>3,823,927</u>	<u>3,816,606</u>
Middle school:		
Salaries	1,358,900	1,261,786
Employee benefits	669,478	600,848
Purchased services	29,896	4,230
Supplies	63,980	37,863
Equipment and furniture	10,667	2,629
Miscellaneous	6,057	4,294
	<u>2,138,978</u>	<u>1,911,650</u>
High school:		
Salaries	1,984,359	1,841,804
Employee benefits	928,265	842,181
Purchased services	66,532	52,627
Supplies	113,788	78,707
Equipment and furniture	63,131	71,678
Miscellaneous	23,021	24,076
	<u>3,179,096</u>	<u>2,911,073</u>
Preschool:		
Salaries	235,804	179,888
Employee benefits	140,731	93,302
Purchased services	8,622	4,747
Supplies	17,622	12,913
Equipment and furniture	26,165	9,515
Miscellaneous	4,745	4,465
	<u>433,689</u>	<u>304,830</u>
Summer school:		
Salaries	29,705	29,286
Employee benefits	7,126	6,639
Supplies	1,670	1,629
	<u>38,501</u>	<u>37,554</u>
Total basic programs	<u>9,614,191</u>	<u>8,981,713</u>
Added needs:		
Special education:		
Salaries	771,121	845,475
Employee benefits	393,412	409,545
Purchased services	12,485	1,812
Supplies	10,288	5,441
Payments to other school districts	442,972	-
	<u>1,630,278</u>	<u>1,262,273</u>

(Continued)

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
Compensatory education:		
Salaries	\$ 669,665	\$ 603,140
Employee benefits	337,390	271,029
Purchased services	12,756	1,177
Supplies	43,043	591
	<u>1,062,854</u>	<u>875,937</u>
Career and technology education:		
Salaries	71,697	70,270
Employee benefits	35,869	33,437
Supplies	2,222	3,357
Equipment and furniture	-	392
	<u>109,788</u>	<u>107,456</u>
Total added needs	2,802,920	2,245,666
Supporting services:		
Pupil services:		
Guidance services:		
Salaries	412,930	299,678
Employee benefits	188,655	139,138
Purchased services	898	-
Supplies	2,168	1,330
	<u>604,651</u>	<u>440,146</u>
Psychological services:		
Purchased services	235	189
Supplies	246	2,248
Payments to other school districts	81,506	-
	<u>81,987</u>	<u>2,437</u>
Speech pathology services:		
Salaries	76,502	66,958
Employee benefits	34,358	31,642
Purchased services	13,036	293
Supplies	-	636
	<u>123,896</u>	<u>99,529</u>
Social worker services:		
Salaries	21,886	47,286
Employee benefits	425	(1,268)
Purchased services	321	133
Supplies	-	90
Payments to other school districts	109,612	-
	<u>132,244</u>	<u>46,241</u>
Other pupil services:		
Salaries	49,204	59,192
Employee benefits	13,067	14,095
	<u>62,271</u>	<u>73,287</u>
Total pupil services	1,005,049	661,640

(Continued)

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
Instructional staff services:		
Improvement of instruction:		
Salaries	\$ 8,316	\$ 5,875
Employee benefits	31,326	34,341
Purchased services	58,583	62,965
Supplies	449	297
	<u>98,674</u>	<u>103,478</u>
Library:		
Salaries	151,464	142,647
Employee benefits	78,950	65,527
Purchased services	40	49
Supplies	14,550	35,055
	<u>245,004</u>	<u>243,278</u>
Audio - visual:		
Purchased services	1,611	1,409
Supplies	406	114
Equipment and furniture	19,883	18,484
	<u>21,900</u>	<u>20,007</u>
Technology assisted instruction:		
Salaries	112,542	110,342
Employee benefits	56,456	47,266
	<u>168,998</u>	<u>157,608</u>
Supervision of instruction:		
Salaries	223,542	221,779
Employee benefits	116,076	81,609
Purchased services	44,722	49,328
Supplies	94,612	139,369
Miscellaneous	438	459
	<u>479,390</u>	<u>492,544</u>
Total instructional staff services	1,013,966	1,016,915
General administrative services:		
Board of education:		
Salaries	40,806	77,190
Employee benefits	2,182	5,141
Purchased services	70,398	70,705
Supplies	6,343	5,359
Miscellaneous	8,421	9,973
	<u>128,150</u>	<u>168,368</u>
Executive administration:		
Salaries	179,927	170,735
Employee benefits	67,447	56,190
Purchased services	5,116	2,991
Miscellaneous	2,893	2,940
	<u>255,383</u>	<u>232,856</u>
Total general administrative services	383,533	401,224

(Continued)

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
School administrative services:		
Office of the principal:		
Salaries	\$ 891,797	\$ 914,328
Employee benefits	437,373	376,377
Purchased services	25,218	19,323
Miscellaneous	4,421	2,920
Total school administrative services	1,358,809	1,312,948
Business services:		
Fiscal services:		
Salaries	233,394	179,263
Employee benefits	114,059	89,629
Purchased services	22,995	22,225
Supplies	21,055	20,268
Miscellaneous	259	310
	391,762	311,695
Other business services:		
Purchased services	18,531	18,614
Miscellaneous	29,851	22,462
	48,382	41,076
Total business services	440,144	352,771
Operation and maintenance services:		
Operation and maintenance:		
Salaries	593,876	579,373
Employee benefits	351,939	286,617
Purchased services	300,516	211,615
Supplies	523,043	504,586
Equipment and furniture	43,485	171,727
Miscellaneous	1,598	395
Total operation and maintenance services	1,814,457	1,754,313
Pupil transportation services:		
Pupil transportation:		
Salaries	161,127	139,834
Employee benefits	72,098	53,495
Purchased services	22,874	28,529
Supplies	31,491	30,557
Equipment and furniture	-	122,134
Miscellaneous	2,103	529
Payments to other school districts	440,399	-
Total pupil transportation services	730,092	375,078
Central services:		
Technology services:		
Purchased services	83,511	133,831
Supplies	4,031	2,154
Equipment and furniture	78,182	262,936
Total central services	165,724	398,921

(Continued)

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Community services:		
Community relations/special projects:		
Salaries	\$ 27,900	\$ 41,395
Employee benefits	6,676	9,526
Purchased services	3,087	7,828
Supplies	11,411	11,021
Total community services	<u>49,074</u>	<u>69,770</u>
Capital outlay:		
Land	-	148,390
Building improvements	-	62,118
Total capital outlay	<u>-</u>	<u>210,508</u>
Debt service:		
Principal repayment	109,929	56,054
Interest and fiscal charges	6,364	5,321
Total debt service	<u>116,293</u>	<u>61,375</u>
Interdistrict:		
Special education tuition	-	261,842
Special education transportation	-	333,731
Special education intinerants	-	315,310
Other	11,000	47,589
Total interdistrict	<u>11,000</u>	<u>958,472</u>
<b>Total Expenditures</b>	<u><u>\$ 19,505,252</u></u>	<u><u>\$ 18,801,314</u></u>

## **NONMAJOR FUNDS**

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2007**

	Special Revenue		
	Food Service	Athletics	Child Care
<b>Assets</b>			
Cash equivalents, deposits and investments	\$ 12,746	\$ 5,438	\$ 2,619
Receivables:			
Taxes	-	-	-
Accounts	-	-	946
Due from other governmental units	6,306	-	-
Inventory	17,253	-	-
<b>Total Assets</b>	<b>\$ 36,305</b>	<b>\$ 5,438</b>	<b>\$ 3,565</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 1,429	\$ -	\$ -
Due to other funds	15,000	-	-
Due to other governmental units	87	48	392
Salaries payable	344	189	1,544
Deferred revenue	-	-	-
<b>Total Liabilities</b>	<b>16,860</b>	<b>237</b>	<b>1,936</b>
<b>Fund Balances</b>			
Reserved for debt service	-	-	-
Unreserved:			
Undesignated	19,445	5,201	1,629
<b>Total Fund Balances</b>	<b>19,445</b>	<b>5,201</b>	<b>1,629</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 36,305</b>	<b>\$ 5,438</b>	<b>\$ 3,565</b>

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Debt Service			
1998	2005	2007	Total
\$ 163,473	\$ 67,647	\$ 5,184	\$ 257,107
33,916	5,917	-	39,833
-	-	-	946
-	-	-	6,306
-	-	-	17,253
<u>\$ 197,389</u>	<u>\$ 73,564</u>	<u>\$ 5,184</u>	<u>\$ 321,445</u>

\$ -	\$ -	\$ -	\$ 1,429
-	-	500	15,500
-	-	-	527
-	-	-	2,077
33,916	5,917	-	39,833
<u>33,916</u>	<u>5,917</u>	<u>500</u>	<u>59,366</u>
163,473	67,647	4,684	235,804
-	-	-	26,275
<u>163,473</u>	<u>67,647</u>	<u>4,684</u>	<u>262,079</u>
<u>\$ 197,389</u>	<u>\$ 73,564</u>	<u>\$ 5,184</u>	<u>\$ 321,445</u>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Combining Schedule of Revenues, Expenditures and Changes in**  
**Fund Balances - Nonmajor Governmental Funds**  
**For the year ended June 30, 2007**

	Special Revenue		
	Food Service	Athletics	Child Care
<b>Revenues</b>			
Local sources:			
Property taxes	\$ -	\$ -	\$ -
Interest earnings	1,892	3,155	481
Sales and admissions	216,728	38,559	-
Other local sources	-	-	90,047
Total local sources	218,620	41,714	90,528
State sources	42,815	-	22,133
Federal sources	626,901	-	-
<b>Total Revenues</b>	<b>888,336</b>	<b>41,714</b>	<b>112,661</b>
<b>Expenditures</b>			
Current:			
Food service	882,860	-	-
Athletics	-	455,606	-
Community services	-	-	124,818
Debt service:			
Principal repayment	-	-	-
Interest and fiscal charges	-	-	-
<b>Total Expenditures</b>	<b>882,860</b>	<b>455,606</b>	<b>124,818</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>5,476</b>	<b>(413,892)</b>	<b>(12,157)</b>
<b>Other Financing Sources</b>			
Transfers in	-	414,999	8,500
<b>Net Change in Fund Balances</b>	<b>5,476</b>	<b>1,107</b>	<b>(3,657)</b>
<b>Fund Balances, July 1</b>	<b>13,969</b>	<b>4,094</b>	<b>5,286</b>
<b>Fund Balances, June 30</b>	<b>\$ 19,445</b>	<b>\$ 5,201</b>	<b>\$ 1,629</b>

Debt Service			
1998	2005	2007	Total
\$ 1,505,379	\$ 585,002	\$ -	\$ 2,090,381
32,244	11,949	-	49,721
-	-	-	255,287
-	-	-	90,047
1,537,623	596,951	-	2,485,436
-	-	-	64,948
-	-	-	626,901
1,537,623	596,951	-	3,177,285
-	-	-	882,860
-	-	-	455,606
-	-	-	124,818
1,090,000	160,000	-	1,250,000
411,596	390,199	22,365	824,160
1,501,596	550,199	22,365	3,537,444
36,027	46,752	(22,365)	(360,159)
-	-	27,049	450,548
36,027	46,752	4,684	90,389
127,446	20,895	-	171,690
\$ 163,473	\$ 67,647	\$ 4,684	\$ 262,079

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Food Service Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2007**

	Budget	Actual	Variance - Positive (Negative)
<b>Revenues</b>			
Local sources	\$ 220,511	\$ 218,620	\$ (1,891)
State sources	42,811	42,815	4
Federal sources	594,664	626,901	32,237
<b>Total Revenues</b>	<u>857,986</u>	<u>888,336</u>	<u>30,350</u>
<b>Expenditures</b>			
Current:			
Food service	<u>874,657</u>	<u>882,860</u>	<u>(8,203)</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(16,671)</u>	<u>5,476</u>	<u>22,147</u>
<b>Other Financing Sources</b>			
Transfers in	<u>4,000</u>	<u>-</u>	<u>4,000</u>
<b>Net Change in Fund Balances</b>	<u>(12,671)</u>	<u>5,476</u>	<u>18,147</u>
<b>Fund Balances, July 1</b>	<u>13,969</u>	<u>13,969</u>	<u>-</u>
<b>Fund Balances, June 30</b>	<u><u>\$ 1,298</u></u>	<u><u>\$ 19,445</u></u>	<u><u>\$ 18,147</u></u>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Athletics Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2007**

	Budget	Actual	Variance - Positive (Negative)
<b>Revenues</b>			
Local sources	\$ 41,771	\$ 41,714	\$ (57)
<b>Expenditures</b>			
Current:			
Athletics	458,339	455,606	2,733
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(416,568)	(413,892)	2,676
<b>Other Financing Sources</b>			
Transfers in	415,000	414,999	(1)
<b>Net Change in Fund Balances</b>	(1,568)	1,107	2,675
<b>Fund Balances, July 1</b>	4,094	4,094	-
<b>Fund Balances, June 30</b>	\$ 2,526	\$ 5,201	\$ 2,675

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Child Care Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the year ended June 30, 2007**

	Budget	Actual	Variance - Positive (Negative)
<b>Revenues</b>			
Local sources	\$ 88,598	\$ 90,528	\$ 1,930
State sources	22,128	22,133	5
<b>Total Revenues</b>	110,726	112,661	1,935
<b>Expenditures</b>			
Current:			
Community services	124,314	124,818	(504)
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(13,588)	(12,157)	1,431
<b>Other Financing Sources</b>			
Transfers in	8,500	8,500	-
<b>Net Change in Fund Balances</b>	(5,088)	(3,657)	1,431
<b>Fund Balances, July 1</b>	5,286	5,286	-
<b>Fund Balances, June 30</b>	\$ 198	\$ 1,629	\$ 1,431

## **SPECIAL REVENUE FUNDS**

*Food Service*—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the District.

*Athletics*—to account for activity receipts and General Fund contributions used in administering the athletic program of the District.

*Child Care*—to account for user fees and State subsidies for use in administering the child care program of the District.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Food Service Special Revenue Fund**  
**Comparative Balance Sheet**  
**June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash equivalents, deposits and investments	\$ 12,746	\$ 6,835
Accounts receivable	-	3,104
Due from other governmental units	6,306	6,128
Inventory	<u>17,253</u>	<u>9,898</u>
<b>Total Assets</b>	<u><u>\$ 36,305</u></u>	<u><u>\$ 25,965</u></u>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,429	\$ 11,996
Due to other funds	15,000	-
Due to other governmental units	87	-
Salaries payable	<u>344</u>	<u>-</u>
<b>Total Liabilities</b>	<u>16,860</u>	<u>11,996</u>
<b>Fund Balances</b>		
Unreserved:		
Undesignated	<u>19,445</u>	<u>13,969</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 36,305</u></u>	<u><u>\$ 25,965</u></u>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Food Service Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
<b>Revenues</b>		
Local sources:		
Sales and admissions:		
Children's breakfasts	\$ 11,146	\$ 9,326
Children's lunches	121,206	160,643
Adult lunches	3,025	1,828
Milk	742	995
Ala carte	47,829	39,784
Vending machine	18,443	3,477
Banquets	11,689	5,375
Other	2,648	-
	<u>216,728</u>	<u>221,428</u>
Interest earnings:		
Interest on deposits and investments	1,892	1,912
Total local sources	<u>218,620</u>	<u>223,340</u>
State sources	42,815	41,341
Federal sources	<u>626,901</u>	<u>538,433</u>
<b>Total Revenues</b>	<u>888,336</u>	<u>803,114</u>
<b>Expenditures</b>		
Current:		
Food service:		
Salaries	218,578	208,918
Employee benefits	114,836	106,634
Purchased services	99,900	122,439
Supplies	438,205	407,775
Equipment and furniture	9,914	9,920
Miscellaneous	1,427	100
	<u>882,860</u>	<u>855,786</u>
<b>Total Expenditures</b>	<u>882,860</u>	<u>855,786</u>
<b>Excess (Deficiencies) of Revenues Over Expenditures</b>	5,476	(52,672)
<b>Fund Balances, July 1</b>	<u>13,969</u>	<u>66,641</u>
<b>Fund Balances, June 30</b>	<u><u>\$ 19,445</u></u>	<u><u>\$ 13,969</u></u>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Athletics Special Revenue Fund**  
**Comparative Balance Sheet**  
**June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash equivalents, deposits and investments	<u>\$ 5,438</u>	<u>\$ 4,094</u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Due to other governmental units	\$ 48	\$ -
Salaries payable	<u>189</u>	<u>-</u>
<b>Total Liabilities</b>	<u>237</u>	<u>-</u>
<b>Fund Balances</b>		
Unreserved:		
Undesignated	<u>5,201</u>	<u>4,094</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 5,438</u>	<u>\$ 4,094</u>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Athletics Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
<b>Revenues</b>		
Local sources:		
Sales and admissions:		
Athletic admissions	\$ 31,633	\$ 37,058
Tournament fees	6,925	1,820
Other	1	99
	<u>38,559</u>	<u>38,977</u>
Interest earnings:		
Interest on deposits and investments	<u>3,155</u>	<u>1,892</u>
<b>Total Revenues</b>	<u>41,714</u>	<u>40,869</u>
<b>Expenditures</b>		
Current:		
Athletics:		
Salaries	270,323	177,882
Employee benefits	86,768	40,595
Purchased services	32,531	31,245
Supplies	14,106	10,303
Equipment and furniture	41,437	34,517
Miscellaneous	10,441	9,594
	<u>455,606</u>	<u>304,136</u>
<b>Total Expenditures</b>	<u>455,606</u>	<u>304,136</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(413,892)</u>	<u>(263,267)</u>
<b>Other Financing Sources</b>		
Transfers in	<u>414,999</u>	<u>246,000</u>
<b>Net Change in Fund Balances</b>	1,107	(17,267)
<b>Fund Balances, July 1</b>	<u>4,094</u>	<u>21,361</u>
<b>Fund Balances, June 30</b>	<u><u>\$ 5,201</u></u>	<u><u>\$ 4,094</u></u>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Child Care Special Revenue Fund**  
**Comparative Balance Sheet**  
**June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash equivalents, deposits and investments	\$ 2,619	\$ 6,321
Accounts receivable	<u>946</u>	<u>619</u>
<b>Total Assets</b>	<u><u>\$ 3,565</u></u>	<u><u>\$ 6,940</u></u>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Due to other governmental units	\$ 392	\$ 320
Salaries payable	<u>1,544</u>	<u>1,334</u>
<b>Total Liabilities</b>	<u>1,936</u>	<u>1,654</u>
<b>Fund Balances</b>		
Unreserved:		
Undesignated	<u>1,629</u>	<u>5,286</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 3,565</u></u>	<u><u>\$ 6,940</u></u>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Child Care Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2007 and 2006**

	2007	2006
<b>Revenues</b>		
Local sources:		
Other local sources:		
Child care fees	\$ 87,497	\$ 88,176
Summer activity fees	2,550	2,150
	<u>90,047</u>	<u>90,326</u>
Interest earnings:		
Interest on deposits and investments	481	599
Total local sources	<u>90,528</u>	<u>90,925</u>
State sources	<u>22,133</u>	<u>16,078</u>
<b>Total Revenues</b>	<u>112,661</u>	<u>107,003</u>
<b>Expenditures</b>		
Current:		
Child care:		
Salaries	84,515	83,214
Employee benefits	34,498	34,626
Purchased services	2,092	1,230
Supplies	3,333	2,759
Miscellaneous	380	-
<b>Total Expenditures</b>	<u>124,818</u>	<u>121,829</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(12,157)</u>	<u>(14,826)</u>
<b>Other Financing Sources</b>		
Transfers in	<u>8,500</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	(3,657)	(14,826)
<b>Fund Balances, July 1</b>	<u>5,286</u>	<u>20,112</u>
<b>Fund Balances, June 30</b>	<u><u>\$ 1,629</u></u>	<u><u>\$ 5,286</u></u>

## **DEBT SERVICE FUNDS**

*Debt Service Funds*—To accumulate property tax revenues and interest earnings for repayment of the bond issues of the District used to finance new building construction projects.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Debt Service Funds**  
**Combining Balance Sheet**  
**June 30, 2007**

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	<u>1998</u>	<u>2005</u>	<u>2007</u>
<b>Assets</b>			
Cash equivalents, deposits and investments	\$ 163,473	\$ 67,647	\$ 5,184
Taxes receivable	<u>33,916</u>	<u>5,917</u>	<u>-</u>
<b>Total Assets</b>	<u><u>\$ 197,389</u></u>	<u><u>\$ 73,564</u></u>	<u><u>\$ 5,184</u></u>
 <b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Due to other funds	\$ -	\$ -	\$ 500
Deferred revenue	<u>33,916</u>	<u>5,917</u>	<u>-</u>
<b>Total Liabilities</b>	<u>33,916</u>	<u>5,917</u>	<u>500</u>
<b>Fund Balances</b>			
Reserved for debt service	<u>163,473</u>	<u>67,647</u>	<u>4,684</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 197,389</u></u>	<u><u>\$ 73,564</u></u>	<u><u>\$ 5,184</u></u>

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Totals	
2007	2006
\$ 236,304	\$ 148,341
39,833	64,429
<u>\$ 276,137</u>	<u>\$ 212,770</u>

\$ 500	\$ -
39,833	64,429
<u>40,333</u>	<u>64,429</u>
235,804	148,341
<u>\$ 276,137</u>	<u>\$ 212,770</u>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Debt Service Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the year ended June 30, 2007**

	1998	2005	2007
<b>Revenues</b>			
Local sources:			
Property taxes:			
Current property taxes	\$ 1,481,651	\$ 576,236	\$ -
Industrial facilities taxes	12,212	4,749	-
Delinquent property taxes	5,312	1,334	-
Other taxes	1,716	1,175	-
Interest on delinquent taxes	4,488	1,508	-
	1,505,379	585,002	-
Interest earnings:			
Interest on deposits and investments	32,244	11,949	-
State sources:			
State school aid	-	-	-
<b>Total Revenues</b>	1,537,623	596,951	-
<b>Expenditures</b>			
Debt service:			
Principal repayment	1,090,000	160,000	-
Interest and fiscal charges:			
Interest expense	405,520	389,700	21,865
Paying agent fees	300	225	500
Tax refunds	5,776	274	-
Bond issuance costs	-	-	-
Underwriter's fees	-	-	-
<b>Total Expenditures</b>	1,501,596	550,199	22,365
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	36,027	46,752	(22,365)
<b>Other Financing Sources (Uses)</b>			
Refunding bond proceeds	-	-	-
Bond premium	-	-	-
Transfers in	-	-	27,049
Payments to escrow agent	-	-	-
<b>Total Other Financing Sources (Uses)</b>	-	-	27,049
<b>Net Change in Fund Balances</b>	36,027	46,752	4,684
<b>Fund Balances, July 1</b>	127,446	20,895	-
<b>Fund Balances, June 30</b>	\$ 163,473	\$ 67,647	\$ 4,684

Totals	
2007	2006
\$ 2,057,887	\$ 1,979,725
16,961	24,781
6,646	11,951
2,891	9
5,996	4,342
2,090,381	2,020,808
44,193	30,526
-	16,074
2,134,574	2,067,408
1,250,000	1,186,080
817,085	742,347
1,025	824
6,050	-
-	74,965
-	49,680
2,074,160	2,053,896
60,414	13,512
-	8,280,000
-	692,776
27,049	-
-	(9,501,166)
27,049	(528,390)
87,463	(514,878)
148,341	663,219
\$ 235,804	\$ 148,341

## **CAPITAL PROJECTS FUND**

*2007 Construction Fund* — to account for bond proceeds used to finance building construction and improvement projects.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**2007 Construction Capital Projects Fund**  
**Comparative Balance Sheet**  
**June 30, 2007 and 2006**

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	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash equivalents, deposits and investments	\$ 1,857,217	\$ -
Due from other funds	<u>500</u>	<u>-</u>
<b>Total Assets</b>	<u><u>\$ 1,857,717</u></u>	<u><u>\$ -</u></u>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Fund Balances</b>		
Reserved for capital outlay	<u>1,857,717</u>	<u>-</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 1,857,717</u></u>	<u><u>\$ -</u></u>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**2007 Construction Capital Projects Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Revenues</b>		
Local sources:		
Interest earnings:		
Interest on deposits and investments	\$ 48,883	\$ -
<b>Expenditures</b>		
Capital outlay:		
Purchased services	10,759	-
Architect services	57,025	-
Supplies	854	-
Equipment and furniture	152,211	-
Debt service:		
Bond issuance costs	30,606	-
Underwriter's discount	14,711	-
<b>Total Expenditures</b>	<u>266,166</u>	<u>-</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(217,283)</u>	<u>-</u>
<b>Other Financing Sources</b>		
Bonds issued	<u>2,075,000</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	1,857,717	-
<b>Fund Balances, July 1</b>	<u>-</u>	<u>-</u>
<b>Fund Balances, June 30</b>	<u><u>\$ 1,857,717</u></u>	<u><u>\$ -</u></u>

## **AGENCY FUND**

*Student Activities*—to account for the collection and disbursements of monies used by the school activity clubs and groups.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Student Activities Agency Fund**  
**Statement of Changes in Assets and Liabilities**  
**For the year ended June 30, 2007**

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	<u>Balances</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2007</u>
<b>Assets</b>				
Cash equivalents, deposits and investments	<u>\$ 291,042</u>	<u>\$ 301,478</u>	<u>\$ 289,315</u>	<u>\$ 303,205</u>
<b>Liabilities</b>				
Due to student groups	<u>\$ 291,042</u>	<u>\$ 321,799</u>	<u>\$ 309,636</u>	<u>\$ 303,205</u>

## **OTHER INFORMATION**

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Summary of 2006 Taxes Levied and Collected**  
**For the year ended June 30, 2007**

	Kent County City of		
	Kentwood	Wyoming	Total
<b>Taxable Valuations</b>			
Operating	\$ 56,687,548	\$169,428,793	\$226,116,341
Debt Service	139,481,675	235,747,519	375,229,194
<b>Rates (Mills)</b>			
General Fund			18.0000
1998 Debt Service Fund			3.9600
2005 Debt Service Fund			1.5400
			<u>23.5000</u>
<b>Taxes Levied 2006 Rolls</b>			
General Fund	\$ 1,020,372	\$ 3,052,399	\$ 4,072,771
1998 Debt Service Fund	552,366	934,087	1,486,453
2005 Debt Service Fund	214,761	363,326	578,087
	<u>1,787,499</u>	<u>4,349,812</u>	<u>6,137,311</u>
<b>Taxes Uncollected 2006 Rolls</b>			
General Fund	17,247	7,258	24,505
1998 Debt Service Fund	3,826	936	4,762
2005 Debt Service Fund	1,487	364	1,851
	<u>22,560</u>	<u>8,558</u>	<u>31,118</u>
<b>Taxes Collected 2006 Rolls</b>			
General Fund	1,003,125	3,045,141	4,048,266
1998 Debt Service Fund	548,540	933,151	1,481,691
2005 Debt Service Fund	213,274	362,962	576,236
	<u>1,764,939</u>	<u>4,341,254</u>	<u>6,106,193</u>
<b>Delinquent Taxes Collected</b>			
General Fund	10,730	22,221	32,951
1998 Debt Service Fund	2,266	3,046	5,312
2005 Debt Service Fund	494	840	1,334
	<u>13,490</u>	<u>26,107</u>	<u>39,597</u>
<b>Total Taxes Collected</b>			
General Fund	1,013,855	3,067,362	4,081,217
1998 Debt Service Fund	549,034	933,991	1,483,025
2005 Debt Service Fund	213,274	362,962	576,236
	<u>1,776,163</u>	<u>4,364,315</u>	<u>6,140,478</u>
<b>Taxes Uncollected - June 30, 2007</b>			
General Fund:			
2006	\$ 17,247	\$ 7,258	\$ 24,505
2005	44,966	10,035	55,001
2004	39,093	2,815	41,908
	<u>101,306</u>	<u>20,108</u>	<u>121,414</u>
1998 Debt Service Fund:			
2006	3,826	936	4,762
2005	10,782	3,763	14,545
2004	12,150	2,459	14,609
	<u>26,758</u>	<u>7,158</u>	<u>33,916</u>
2005 Debt Service Fund:			
2006	1,487	364	1,851
2005	3,197	869	4,066
	<u>4,684</u>	<u>1,233</u>	<u>5,917</u>
<b>Total Taxes Uncollected</b>	<u>\$ 132,748</u>	<u>\$ 28,499</u>	<u>\$ 161,247</u>

Hungerford, Aldrin,  
Nichols & Carter, P.C.  

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C P A s   A N D   C O N S U L T A N T S

October 17, 2007

The Board of Education  
Kelloggsville Public Schools  
Grand Rapids, Michigan

The following comments pertain to our audit of the financial records of Kelloggsville Public Schools as of and for the year ended June 30, 2007. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Kelloggsville Public Schools:

### **Auditors Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Kelloggsville Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Kelloggsville Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Kelloggsville Public School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Kelloggsville Public School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Kelloggsville Public School's compliance with those requirements.

### **Significant Accounting Policies**

The District's elected officials and management have the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise the District regarding the appropriateness of accounting policies and their application. The significant accounting policies used by Kelloggsville Public Schools are described in Note A in the Notes to Basic Financial Statements.

### **Difficulties Encountered In Performing the Audit**

We encountered no significant difficulties in performing the audit of the financial statements of Kelloggsville Public Schools for the year ended June 30, 2007.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements:

#### **General Fund**

1. \$70,264 to write off uncollected 2003 delinquent personal property taxes.
2. \$8,445 to record 2006 delinquent personal property taxes receivable.
3. \$89,197 to correct the classification of the Medicaid reimbursements.

#### **Food Service Fund**

1. \$51,154 to record entitlement and bonus commodities received during the year.
2. \$7,355 to adjust inventory at the end of the year.

### **Proposed Audit Adjustments**

There were no material proposed audit adjustments not recorded by Kelloggsville Public Schools.

### **Suggestions and Recommendations**

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Kelloggsville Public Schools to the Superintendent and Accounting Supervisor as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

In the fall of 2006, the AICPA issued Statement on Auditing Standards No. 112 “Communicating Internal Control Related Matters Identified in and Audit”, which requires a written communication from an auditor to an organization’s governing board if any weaknesses in internal controls (“control deficiencies”) rise to the level of “significant deficiencies” or “material weaknesses” that might effect the integrity of the financial statements. The AICPA significantly broadened the standards as to what might be a significant deficiency and/or material weakness and raised the expectations of auditors to report these control deficiencies if found. Our SAS No. 112 communication was issued to the District in a separate letter accompanying the audit report. The following recommendations relate to our internal control findings:

- We encourage the District to increase its activities in the area of the *monitoring of internal controls*, especially in the areas in the cash-type transactions occurring outside the business office (athletics, food service, child care, etc.)
- We encourage the District to support the Business Manager in furthering her education in the area of governmental financial statement preparation in compliance with current GAAP and GASB requirements. These are complex and constantly changing requirements that continue to increase and undergo significant modifications.

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 “Consideration of Fraud in a Financial Statement Audit” (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school district that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Kelloggsville Public Schools has a very extensive network of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with District business office personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the District in maintaining and improving its systems.

#### **Other Comments**

The General Fund Balance of the District decreased by \$115,228 to \$4,820,807 at June 30, 2007. This balance represents approximately 24.4 percent of the District’s 2006-07 budgeted expenditures (down from 26.7 percent at June 30, 2006). Maintaining a fund balance of at least 20 percent of the ensuing year’s expenditure budget is advisable for Kelloggsville Public Schools, as that percentage seems to be a dividing line between Districts that are required to borrow for cash-flow purposes (and incur interest expenses and loan processing fees) and those Districts that are not required to borrow. This level of fund balance also gives the District more stable operating funds during the year and acts as a buffer against the uncertainty of state aid revenues accruing to the District.

Kelloggsville Public Schools  
October 17, 2007  
Page 5

This communication is intended solely for the information and use of the Kelloggsville Public Schools Board of Directors, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Kelloggsville Public Schools and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them.

*Hungerford, Alden, Nichols & Kenton, P.C.*

Certified Public Accountants

Hungerford, Aldrin,  
Nichols & Carter, P.C.  
CPAs AND CONSULTANTS

October 15, 2007

The Board of Education  
Kelloggsville Public Schools  
Kent County, Michigan

The following comments pertain to our audit of the financial records of Kelloggsville Public Schools as of and for the year ended June 30, 2007. The comments are made in accordance with Statement on Auditing Standards No. 112 "*Communicating Internal Control Related Matters Identified in an Audit*" which has the following two unconditional requirements:

- The auditor must evaluate identified *control deficiencies* and determine whether those deficiencies, individually or in combination, are *significant deficiencies* or *material weaknesses*.
- The auditor *must communicate, in writing, significant deficiencies and material weaknesses* to management and those charged with governance. This communication includes significant deficiencies and material weaknesses identified and communicated to management and those charged with governance in prior audits but not yet remediated.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is *more than a remote likelihood* that a misstatement of the entity's financial statements that is *more than inconsequential* will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in *more than a remote likelihood* that a *material misstatement of the financial statements* will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

The following describe circumstances that may be control deficiencies, significant deficiencies, or material weaknesses:

- Inadequate *design* of internal control over a significant account or process.
- Inadequate *documentation* of the components of internal control.
- Insufficient *control consciousness* within the organization, for example, the tone at the top and the control environment.
- Inadequate or absent *segregation of duties* within a significant account or process.
- Inadequate design of *information technology* (IT) general and application controls.
- Inadequate design of *monitoring* controls used to assess the design and operating effectiveness of internal controls.
- The absence of an internal process to *report deficiencies* in internal controls to management on a timely basis.
- Employees or management who *lack the qualifications and training* to fulfill their assigned functions. For example, in an entity that prepares financial statements in accordance with Generally Accepted Accounting Principles (GAAP), the person responsible for the accounting and reporting function lacks the skills and knowledge to apply (GAAP) in recording the entity's financial transactions or *preparing its financial statements* (including the notes to basic financial statements).

The management of Kelloggsville Public Schools is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

In planning and performing our audit of the financial statements of Kelloggsville Public Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Kelloggsville Public School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

- District officials or employees who lack the qualifications and training to fulfill certain required functions:
  1. The lack of knowledge and skills present to apply Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) reporting standards in recording the District's financial transactions or preparing its financial statements (including Management's Discussion and Analysis and Notes to Basic Financial Statements) in compliance with current GAAP and GASB requirements.

This communication is intended solely for the information and use of management, the Township Board, others within the organization, and the Michigan Department of Treasury. It is not intended to be and should not be used by anyone other than these specified parties.

*Hungerford, Alden, Nichols & Martin, P.C.*

Certified Public Accountants